

# THE INSURANCE TRUST"

WHAT IT IS AND  
ITS RELATIONS TO  
THE PUBLIC

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# "THE INSURANCE TRUST"

WHAT IT IS AND HOW THE PUBLIC ARE  
AFFECTED. — FACTS YOU SHOULD KNOW



HE disclosures which have attended the recent investigation in New York City by a special committee of the New York legislature of the methods of the life insurance companies, have naturally given rise to inquiries as to the methods of the fire insurance companies as well. This is the more natural because, notwithstanding the fact that practically every property owner in the country is carrying fire insurance, he has but a faint idea of the principles of the business and does not understand why it is not conducted in the same manner as any other business. Unfortunately for insurer and insured alike, there is a wide-spread prejudice against fire insurance companies which ought not to exist. On the contrary, the relations between the insuring public and the companies should be of a friendly and cordial character, which can only exist when there is a more thorough understanding of the fundamental principles of the business and a more general realization of the fact that the methods pursued by the fire insurance companies must be such as will, at the same time, provide for their own stability and secure to their patrons that ABSOLUTE INDEMNITY which is to be their only protection against financial ruin in case of fire.

That such friendly relations do not exist is no doubt largely due to the fire insurance companies themselves, for they seem to have made no particular effort to enlighten the public as to those matters concerning which it was entitled to full information. The time has come when this information should be no longer withheld and it is

the purpose of this article to give this information frankly and fairly, so that every policy holder may know whether he has any just cause for complaint because of the manner in which the fire insurance business is being conducted.

The policy holder should bear in mind:

1. That insurance is a tax and that the insurance companies may be regarded as the agents for the collection of that tax in small sums from the many in order to pay it out to the comparatively few who sustain loss by fire.

2. That the capital which the stock companies adventure in the business is the guaranty which they offer to the public as an evidence of their ability to promptly pay all losses for which they may be liable.

3. That the insurance companies must collect an amount sufficient to pay all losses, all expenses incurred in transacting the business, together with a reasonable profit upon their capital invested, or they will be compelled to retire from the business.

4. That it is of the first importance to the policy holder, therefore, that adequate rates upon all classes of property should be collected by the companies, otherwise he may find his policy worthless in event of his property being destroyed by fire. It is almost of equal importance that the rates of insurance shall be no higher than the experience of the companies has shown to be fair, and that there shall be no discrimination whereby he is made to pay a higher rate than his neighbor upon exactly the same character of risk.

It must be apparent that the cost of insurance to the policy holder will necessarily be higher when the losses are heavy and the expenses of transacting the business large, than it will be when the losses are light and the expenses moderate. In this connection it is proper to consider the question whether the rates or cost of insurance are unfairly and extortionately increased by a combination, constituting what is popularly believed to be



## “AN INSURANCE TRUST.”

A “Trust,” in the popular sense, is a combination of persons or corporations formed for the purpose of stifling competition and establishing a monopoly of the article, commodity or thing to be produced, manufactured or sold, so that unreasonable and exorbitant prices may be charged, to the detriment and injury of the public.

In order that a combination of fire insurance interests may be formed, whereby rates of insurance can be fixed and maintained without regard to whether they are just and equitable, it is necessary that all, or nearly all, of the companies engaged in doing a general business should enter such combination. Unless a sufficient number of companies can be induced to combine to practically prevent competition, it is impossible to “corner the market” so as to control the business and maintain an exorbitant tariff of rates. The difficulty, if not the impossibility of forming such a combination may be appreciated when it is understood that there are three classes of competitors for the business, and that the interests of each absolutely conflict with those of the other two. These competitors are the stock companies, the mutuals and the Lloyds. The stock companies do not now and never have agreed among themselves as to rates and many other things, as will be hereafter shown. The mutuals are organized and operated upon the fundamental idea that they can furnish their members with insurance at less cost than the stock companies charge. The Lloyds are often — though not always — managed by designing men for their own gain, who are guerillas in the business, competing with both stock and mutual companies for business at any rate which will secure it, without regard to whether their losses are paid or not.

During the past year there were 225 stock companies operating in the United States, not all in any one state,

but all ready to do so if the conditions had been favorable to their doing so at a profit.

The actual number of mutuals cannot be stated without a careful compilation of statistics, but at a conservative estimate they must more than double the number of stock companies.

The Lloyds and their kindred are constantly changing in number, name and location, as circumstances may be more or less favorable to their peculiar methods of operation. At the close of 1902 there were 40 known concerns, while at the close of 1904 they had increased to 100.

Besides the competitors named above, there were 151 unlicensed stock companies in the field during the past year, seeking such business as could be secured through the inducement of large reductions from the rates offered by the authorized stock companies.

With this array of competitors, aggregating over one thousand in number and representing CONFLICTING INTERESTS, it must be apparent that the people have little occasion to fear the organization of an "Insurance Trust." While this fact must be clear to every intelligent man, there is, nevertheless, some occasion for the apprehension of the public that a combination does, in fact, exist, which establishes and maintains rates that are excessive and inequitable. There are associations in the East, South, West, and on the Pacific Coast which do many things not fully understood by the property owners and others affected by their operations, but concerning which it is for the interest of all, both the associated companies and their patrons, that the actual facts should be known.

As preliminary to a statement of the purposes of these organizations or associations, it should be understood that after the great Chicago and Boston fires, an association of the surviving companies was formed and operated for a number of years for the purpose of maintaining such

rates as would recoup them for the heavy losses they had sustained, as well as to enable them to accumulate a surplus which should be found a bulwark of strength and protection to their policy holders whenever future great conflagrations should again test their resources. The methods of this association were not entirely satisfactory and, after a few years, it ceased to exist. Thereafter such utter demoralization prevailed that the stability of the companies was most seriously threatened. In 1879 the situation had become so grave in the field commonly known as the Western States that a meeting of the managers of the companies operating therein was called and an association was formed which has existed from that time to the present, and as a statement of its purposes will apply equally to other similar organizations in other parts of the country, reference will here be made only to the association so formed and known as

## “THE UNION.”

This association was formed to meet a crisis in the insurance business, when the conditions brought about by unreasoning competition had caused the failure or retirement of many companies and imperilled the very existence of many others. Rates had been reduced below the paying point, while the expenses of the business had been enormously increased. Realizing that if the insurance companies were to survive and continue to meet their loss obligations reforms must be promptly instituted, these managers, representing less than one half of all of the companies engaged in business in the West, courageously resolved to devote their energies to restoring the business to a sound financial basis and to regaining the confidence and respect of the public, which had well nigh been lost. This association, thus organized, has been in operation ever since and during the twenty-six years of its existence has been and still is the exponent



of everything which conduces to sound and healthy underwriting. It cannot claim to have made no mistakes, but it has always had in view these fundamental ideas :

### *1. Absolute Indemnity to Policy Holders.*

This object can only be secured through the observance of correct principles of underwriting and the maintenance of rates upon a basis which will produce a sufficient amount of premiums to enable the companies to pay accruing losses, the necessary cost of operation, a fair profit upon the capital invested and, above all, the gradual accumulation of a surplus against that "Rainy Day" which must surely come, when the companies will be again called upon to meet excessive losses in some great conflagration like that of Chicago or Boston, or more recently that of Baltimore or Toronto. THE UNION accordingly maintains a "Classification Bureau," by means of which the individual experience of the associated companies is assembled and tabulated for the common good. In no other way could this important information be obtained and utilized. For many years each company has jealously guarded its own "Experience or Classification Tables" as a trade secret, and until this Classification Bureau was established it was impossible to base the rates upon the various classes of risks on the general and average experience of a large number of companies. Now the cost of carrying every class of risk can be ascertained and rates fixed by careful and scientific methods in accordance with the average results thus ascertained, and a corps of experts is maintained for the purpose of preparing rating schedules upon the various classes of insurable property based upon such experience.

### *2. Economy in Management.*

When the operating expenses can be reduced, the rates of insurance can be correspondingly lowered. Before



the organization of THE UNION every company engaged in a general business was obliged to maintain its own corps of field men for the purpose of fixing its own rates, surveying and inspecting its own risks, making its own maps and diagrams and performing the other duties incident to the business. The expenses in proportion to receipts were excessive and the results obtained were never entirely satisfactory. By association THE UNION has substituted for the cumbersome, expensive and unsatisfactory methods of former years many reforms which, while reducing expenses, have greatly improved the efficiency of the service rendered and have been of immense benefit to the public as well. It has been able to and does do many things which were impossible of accomplishment without such association and co-operation. In addition to its Classification Bureau with its scientifically prepared schedules, it recommends uniform practices in the manner of conducting the business and concurrent forms of policies upon important individual risks; it maintains an "Underwriters' Laboratory" wherein practical tests are made of the fire resisting qualities of the various building materials and their relative desirability as such, and there inspections are had and tests made of heating and lighting devices with a view to establishing rules, regulations and recommendations for their installation and use, as well as to determine the character and possible danger of the materials employed in producing heat and light thereby; it maintains a corps of experts whose duty it is to prepare plans and specifications for property owners who desire to equip their buildings or plants with efficient sprinkler systems, together with estimates of cost of the same and the probable reduction of rates upon buildings and plants thus equipped, and also to make periodical inspections of all such buildings and plants for the purpose of seeing that such equipments are maintained in efficient condition; it has its own "Inspection Bureau" whereby various risks

are inspected, their construction, occupancy, external and internal hazards and fire protection ascertained, investigations made as to the extent and efficiency of fire departments and water supply, character of streets and other important matters incident to the prevention or suppression of fires and the extent of the conflagration hazard, if any, of the cities and towns thus inspected. It also employs its own electrical engineers for the purpose of inspecting and reporting upon defects in electrical equipment in the various buildings in each city and town within its jurisdiction, and WHENEVER NOT PROHIBITED BY LAW, it employs skilled and experienced men to apply the various rating schedules for the purpose of establishing fair, just and equitable rates upon all classes of property within its jurisdiction.

In one direction the efforts of THE UNION to benefit the public by economy in management have signally failed. At the time of its organization and for many years thereafter one of its cardinal rules was that no agent should be allowed more than fifteen per cent commission upon the premiums received by him upon any class of property. Competing companies, outside of THE UNION, speedily took advantage of this rule by agreeing to pay to agents representing Union companies greater commission than fifteen per cent, and by that means secured a large amount of desirable business which had hitherto been written by Union companies, or which would have been so written, if the agents had not been induced to place the insurance where they could procure the greatest compensation therefor. For over eighteen years the Union companies endured this unequal competition, endeavoring to maintain the principle that the public should not be required to pay excessive commission charges to agents, and believing that 15 per cent was ample remuneration to the agent for the services rendered. During this time several states passed laws which

prohibited insurance companies from agreeing upon the amount of commissions to be paid to agents. Being restrained by law in some states from agreeing to hold agents' commissions within reasonable bounds, and having sustained serious losses in premium receipts in the entire field because of this attitude, THE UNION has been reluctantly obliged to recede from its position and admit that unless it can have the co-operation of those most intimately concerned—the insuring public—it cannot keep this important item of expense within the limits which it regards as reasonable.

### *3. Reduction in the Fire Waste.*

The destruction of valuable property by fire is a public calamity, whether the immediate loss falls upon the individual owner or upon the insurance companies. It is the absolute destruction of material wealth and value. The annual fire waste in the United States is enormous and whatever can be done to reduce or prevent this destruction of property values operates for the benefit of the public. Property owners could well afford to pay double the present insurance tax if thereby they could purchase ABSOLUTE IMMUNITY FROM FIRE, instead of being INDEMNIFIED FOR LOSSES WHICH THEY SUSTAIN BY FIRE. THE UNION has not confined its energies to the narrow limits of ensuring the stability and undoubted strength of its associated companies, but has devoted much time and incurred much expense in efforts to minimize the fire hazard in every city and town in its jurisdiction, realizing that its peculiar relations to the public enabled it to promote this object when the municipal authorities were apathetic or absolutely insensible to the necessity for efforts in this direction.

It has, therefore, encouraged the application of its carefully prepared schedules in the rating of insurable property throughout the territory within its jurisdiction,



either by its own experienced employes or by independent experts and rating associations. In no other manner can just and equitable rates be made and proper credits given for improvement in risks or charges made for increase of hazard. Every encouragement is given to each individual property owner to improve his own risk so that he can obtain lower rates; he is shown how his building is rated and advised as to what he can do to make it better and safer. Each change for the better thus serves to minimize the fire hazard of surrounding property and so the whole character of a town is gradually improved. In this manner THE UNION, with its carefully prepared schedules for rating all classes of risks, has done more than all other agencies combined to improve the character of cities and towns, to secure better buildings, to improve old ones, to increase the efficiency of fire departments, to provide better water supply with larger mains, to improve streets and alleys, to reduce the possibilities of fire, to increase the facilities for fighting the same and to minimize the conflagration hazard which is present in a greater or less degree in every city and town. THE UNION has accomplished so much good in this direction, by making discriminating charges for deficiencies and credits for improvements, as to be entitled to the confidence, respect and encouragement of property owners and the public everywhere.

The general conflagrations at Baltimore, Rochester, Toronto and other places during the year 1904 have directed the attention of THE UNION to the alarming fact that conditions similar to those which contributed to the widespread and destructive fires at those places exist in other cities. These conditions generally consist of poorly constructed buildings with dangerous occupancy, unprotected openings in rear and side walls, inadequate fire department and insufficient water supply and, while confined to limited areas, they make it possible for a fire

to speedily get beyond control and sweep everything before it. There never having been any adequate effort made upon the part of municipal authorities in any city to remedy these conditions which imperil the vast property values therein, THE UNION has conceived it to be a duty it owes to the public to ascertain where these conditions exist, designate the particular localities where they may be found, specify what they are and what must be done to eliminate them entirely or to improve them as much as possible, at the same time advising the proper officials of such betterments as seem to be necessary in the way of fire apparatus, water mains or water supply and showing individual property owners how their own buildings can be improved and made reasonably secure against fire, either within or without. With this purpose in view, it has, through its committees and trained experts, been engaged during the past year and is now engaged in this important work. These localities presenting unusual facilities for breeding uncontrollable fires, for which no provision has been made in existing rating schedules, it has been found necessary to take account of the same by proper "conflagration charges," but as it is the desire rather to reduce this conflagration hazard, than to increase the rates, a reasonable time is always given for the requisite improvements to be made, before such charges go into effect. As THE UNION has no other means of securing this much needed improvement in the conflagration breeding centres of the various cities, it increases the rates upon individual risks within the designated limits, if the stipulated requirements are not complied with within a specified time. Among the many objects which have the attention of THE UNION there is none which has been, or will be so important a factor in the gradual elimination of this great menace to life and property in many cities, as its efforts to regulate and control the conflagration hazard.

#### *4. Equitable Rates.*

Without equitable rates the burden of the insurance tax will be unequally distributed; some property owners bearing more and others less than their fair share of the burden.

For many years the practice was to have rates established by local agents, a practice open to two very serious objections — first, because the local agents could not have the experience or the knowledge requisite to determine whether rates were correctly assessed or not; second, because the rate makers often were influenced by self-interest, partiality and prejudice, so that discriminations in rates were the almost universal and inevitable result. Recognizing the frequent injustice to property owners of this method of rating, THE UNION has advocated the making of rates by persons employed especially for that purpose, having no personal interest and therefore, being enabled to apply the schedules prepared by THE UNION impartially and “without fear or favor” to all property alike. In this manner THE UNION has been enabled to more generally establish equitable rates than under any other plan, and while it cannot be claimed that the results are now always satisfactory, they certainly are much more so than before the formation of THE UNION. Without such organization each company would be governed by its own experience only in the matter of fixing rates, each one would be obliged to employ its own corps of experts, largely in excess of the number now employed, for the sole purpose of inspecting and rating every risk within the territory in which it transacts business, thereby enormously increasing the cost of doing the business, while the rates of no two companies would be alike, and the difficulties and perplexities of writing insurance would be incalculably enhanced.

It is only proper, in this connection, to consider the



advantages of such an organization to the assured as well. It is manifest that whatever enhances the cost of doing the business must necessarily enhance the cost of insurance to the property owner and, conversely, if the cost of doing the business is materially reduced by organized effort, the property owner is benefited by a corresponding reduction in rate. It is important to him — especially if the value of his property is large — that the rates are BOTH UNIFORM AND STABLE, which cannot be if the companies are not permitted to base their rates upon their united experience, employing a few competent men to apply such schedules based upon such average experience, rather than an army of men who would otherwise be employed to fix rates based upon limited individual experience. It is also of the greatest importance that his policies be concurrent and the forms prepared by competent men and thorough underwriters, fitted by training and education to properly draw important contracts, involving material interests. Unless companies can co-operate in this matter of drafting concurrent forms, the policy holder is sure to have trouble in event of loss, because of the impossibility of reconciling differences between the companies, even if he does not find that considerable property values have been omitted entirely from the protection of his policies on account of imperfect description or otherwise. For these reasons the assured is relatively as much benefited as are the companies, by an association having for its object the fixing of fair and equitable rates, the drafting of proper policy contracts and the observance of correct underwriting principles.

## COMPETITION OF COMPANIES NOT MEMBERS OF THE UNION



THE number of companies which are not members of THE UNION far exceed those within that organization. Of this very large number of what may be termed non-affiliating companies, a very considerable number are equally as strong and responsible as many of the Union companies and offer to the property owner the most undoubted indemnity against loss by fire. These companies, while preserving their independence and differing in some essential particular from the principles and methods adopted by THE UNION, nevertheless usually cooperate with that organization in the observance of correct underwriting practices and adhere to the tariff rates at all important points, sharing also to some extent in the cost of maintaining independent tariff associations and rating bureaus, by subscribing to the rates established by such agencies. Aside from these reliable companies, there is a horde of others, stock, mutual and Lloyds, competing for business upon any terms which will procure it. Bearing no share of the expense incurred by the Union companies for classification, surveys, inspections, ratings and other matters essential to the intelligent and proper conduct of the business, they nevertheless derive as much benefit therefrom as do the Union companies. Sharing in none of this cost, they are in position to and do sell their policies at less cost and thereby induce many people to believe that if it was not for their competition the great "Insurance Trust" would make the rates of insurance still more extortionate. Instead of this being true, if the costs of classification, surveys, inspections and ratings were shared equally by all of the companies, the rates could and would be less than they now

are. This element of cost must enter into the consideration of rates and whatever the average reduction in cost would be on account of increased contribution, such reduction would appear as a saving in rate.

At present many property owners buy inferior indemnity because it is cheap and being induced to do so by the belief that the rates established by the leading companies are unfair and exorbitant. Such was the general impression which prevailed at Baltimore a short time before the great conflagration and the citizens had called a meeting for the purpose of protesting against the rates then in force. The date of the meeting found the city fire-swept and the rate question had been settled by the most convincing of all arguments. The companies which had insisted upon adequate rates paid to their policy holders over Thirty-two Million Dollars, while those who bought cheap insurance are still fruitlessly endeavoring to collect over Four Hundred Thousand Dollars from companies whose policies had been purchased at less than the tariff rates.



## THE EFFECT OF ADVERSE LAWS



VERY law which is enacted, having for its purpose the restriction of fire insurance companies in the conduct of their business, or which increases the taxes they are required to pay, the expenses of operation or the losses they sustain, is a law which reacts on the property owner in the way of increased cost of insurance, for the very simple reason that INSURANCE IS MUTUAL IN PRINCIPLE, even when conducted by stock companies.

The following laws always add to the cost of the business and consequently to the cost of insurance purchased by the property owner.

*The Valued Policy Law.* A law has been enacted in a number of states which requires an insurance company to pay the full amount of insurance upon property which has been totally destroyed by fire, even if the value of the property so destroyed is much less than the amount of the insurance thereon. Such a law is an incentive to crime. It invites incendiarism and the grossest kind of fraud and the insurance companies are powerless to prevent it. In every state where this law has been enacted it has been denounced by the state officials in unmeasured terms.

The Insurance Commissioner of Wisconsin says :

“The valued policy law in this state, as in all  
“other states in which it has been tried, has  
“been the means of increasing losses, and plac-  
“ing a premium on incendiarism. The very  
“foundation principles of fire insurance are  
“opposed to such a law. ‘Fire insurance is  
“indemnity; it should never be gain’; it is  
“intended only to make good the actual loss  
“sustained, and to make a company liable, in

“case of total loss, for the full face of the policy, irrespective of the value of the property, has been the means of increasing the number of fires, and compelled the payment of thousands of dollars, thus increasing the rates to honest men. Such laws, together with high taxes have prevented many companies from entering the state and giving our people the benefit of competition.”

The Insurance Commissioner of Massachusetts characterizes such a law as

“hateful to good morals and offensive to public policy, because a temptation to social crime.”

Governor Pattison of Pennsylvania, in vetoing a valued policy law passed by that state, said,

“Overinsurance and overvaluation are conducive to fraud, perjury and arson; they breed crime — the most dangerous and demoralizing. Commonwealths, which in obedience to a false public clamor, have ingrafted a contrary principle upon their insurance laws, have reaped the whirlwind, and in the end honest insurers will have to pay the penalty of largely increased rates.”

Governor Altgeld of Illinois, in vetoing a similar law said,

“Insurance is an indemnity, not a speculation. It is intended to protect a man against loss, not to give him something for nothing. Its object is to make a man whole, so that he shall be no worse off after a fire than before. The principle involved in this bill would enable a man, in many cases, to be twice as well off after a fire as he was before. In all cases where a dishonest man could, by conniving with an agent, or in any other way, secure insurance for more than the real value of his property, a fire would be a blessing to him. There would be a standing bribe, a perpetual inducement to allow his property to burn down—I will not say to have it burn

“down—and when it is remembered that a  
“fire in one building always endangers and  
“frequently destroys property near by, which  
“often is not insured, it would be bad policy  
“for the State to permit a condition of affairs  
“to exist, which, to say the least, tended to  
“increase fires.”

The Insurance Commissioner of Ohio says:

“To say that fires have steadily increased since  
“the enactment of this obnoxious law is to put  
“it mildly. \* \* \* \* It is an open bid for  
“arson. The Legislature of Ohio ought to  
“have repealed the law years ago. I do not  
“regard it as a desirable law to have upon  
“the statute books. The rates have steadily  
“increased since the enactment of this law,  
“clearly showing that honest people, in the  
“end, are compelled to pay for the dishonest  
“losses.”

The baleful effects of this law in Ohio may be appreciated by reading the following extract from the official report of the Fire Marshal of that state for 1903. He says:

“The losses from incendiary fires for the last  
“year are estimated at \$800,000, a part of  
“the fires reported as from unknown causes  
“being charged to arson. The motives behind  
“these incendiary fires were: To defraud  
“insurance companies, 468; malice, 110;  
“mischievous boys, 36; pyromaniacs, 29;  
“intoxication, 28; to avoid or secure work,  
“18; total, 689.”

NOTE: The \$800,000 of incendiary loss is for the year 1903, while the 689 incendiary fires occurred during a period of three years.

*Anti-Compact Law.* A law which prohibits companies from co-operating in the collection of statistics with reference to losses and the cost of insuring various classes of property, or in the preparation of rating schedules based upon such experience, or which prevents the companies from agreeing upon the rates which may be determined under and by such schedules, or which



prohibits the companies from agreeing upon the amount of commissions or compensation to be paid to local agents, is a law which might well be entitled "An Act to Increase the Cost of Insurance and to Prevent the Reduction of the Fire Hazard." Such a law, in its final results, will prove as prejudicial to the citizen as has the valued policy law. If the insuring public are to obtain equitable rates of insurance, the insurance companies must be permitted to combine their experience in order to arrive at the average cost of carrying every kind of risk. Insurance is unlike any other business and there is no criterion for determining the proper rate upon any risk except by comparing it with similar risks which have been insured in the past, and the larger the number of such risks which can be aggregated for comparison, the more nearly an equitable rate can be ascertained. The experience of one company will not do, for it will have written comparatively few of the class, and it may have a very slight loss ratio or it may have an extremely heavy one. Obviously, insurance must be based on the law of average, and if the companies are not permitted to assemble their experience tables in order to ascertain the general average upon each class, the business becomes one of guesswork instead of science. Besides this, the natural and practical result of combination and collaboration of insurance companies is to encourage the improvement of buildings, to secure the adequacy of water supply, the efficiency of fire departments and the improvement of streets, giving credit in the way of reduced rates for every improvement made. If companies are not permitted to agree upon such credits there will be no inducement to make these improvements and cities and towns will continue to be subject to the ravages of fires. The valuable assistance which fire insurance companies have rendered in the gradual improvement of various cities and towns has been repeatedly demonstrated during the past few years.

*Anti-Co-insurance Law.* A law which prohibits a fire insurance company from agreeing with a policy holder that he will, in consideration of a reduction in the rate of insurance, maintain a certain amount of insurance upon his property in proportion to its value, infringes upon his liberty as a citizen by depriving him of the right to make any contract he desires, so long as he does not infringe upon the rights of others. A co-insurance clause is not operative in case of a total loss. The large majority of fires cause but partial loss to the property imperiled. If full insurance is carried on all property which sustains loss by fire, the average loss per \$1,000 involved will be much less than if a small amount of insurance is carried. As the possibility of a total loss to the insurer increases, so must his rate of premium increase to provide for such increased possibility of loss. If the total value of a certain class of risk amounts to \$2,000,000, upon which there is an average loss of \$20,000, this entire property should produce sufficient premiums to pay this annual loss charge. If full insurance of \$2,000,000 is carried, the rate would be 1 per cent and the premium would be . . . . . \$20,000.

If 80 per cent of insurance or \$1,600,000 is carried, the rate would be  $1\frac{1}{4}$  per cent and the premium would be . . . . . \$20,000.

If 60 per cent of insurance or \$1,200,000 is carried, the rate would be  $1\frac{2}{3}$  per cent and the premium would be . . . . . \$20,000.

It will readily appear from the foregoing that it is impossible to determine what rate of premium should be charged, unless the approximate amount of insurance to value is also known and it is also apparent why it is possible to give to the assured a reduction in rate, providing he will agree to maintain a certain amount of insurance upon his property. Having his option whether he will accept the condition in consideration of the reduced rate,

or pay a higher rate without it, there is no just reason why he should be deprived of that right by law.

**Taxation.** A law which imposes a tax upon the gross premium receipts of fire insurance companies is a law which, indirectly, imposes a tax for an equal or greater amount upon the property owners of the state. This subject was fully treated in a recent letter from the President of THE UNION to Hon. Henry R. Prewitt, Insurance Commissioner of Kentucky, and as what was there said applies with equal force to fire insurance taxation everywhere, the following extract is made from said letter :

“Your present fees and taxes—state and municipal — aggregate 3.71 per cent upon the gross premium receipts, a discrimination against the insurance companies which is practiced against no other taxpayers, corporate or individual. What would be thought of a proposition to tax a merchant upon his gross sales without allowing any deduction for cost of merchandise sold or expenses of his business? Yet your state taxes the companies 3.71 per cent UPON EVERY DOLLAR WHICH THEY HAVE PAID OUT TO YOUR CITIZENS FOR LOSSES AND EXPENSES.

“During the past 13 years the premium receipts in Kentucky of stock fire insurance companies have amounted to . . . \$41,216,102

“Losses have amounted to \$23,692,739

“Expenses (not including taxes) . . . . . 13,609,557      37,302,296

“Leaving, after deducting losses and expenses, the sum of . . . . . 3,913,806

“Upon which the state and municipal taxes and fees have been 1,529,117

“or 39 PER CENT UPON THE NET INCOME.

“The companies have remaining the munificent sum of \$2,384,689 as the results of the operations of 13 years, which divided among the 115 companies now doing business in your state, would afford an annual profit of \$1,595 to each company.”



“This method of taxation upon the basis  
“of gross premiums, when analyzed, comes  
“pretty near to confiscation, as you will see.  
“All that is needed to make the transaction  
“complete is to so amend your laws that the  
“companies shall pay the balance to the state  
“of Kentucky and its various municipal corporations. If a tax of 39 per cent upon net  
“income is justified, then there is no reason  
“why your state should not take it all. I do  
“not overlook the fact that other states have  
“adopted the same manner of taxation as has  
“Kentucky, but that only serves to emphasize  
“the unreasoning prejudice which has marked  
“the legislation of many of the states when  
“dealing with a class of corporations which has  
“become absolutely essential to the success and  
“prosperity of any state. But if your legislators and statesmen are seeking for means  
“whereby the rates of insurance may be  
“reduced and its cost to your property owners  
“lessened, they might well ask themselves this  
“serious question: ‘Why should a business,  
“which is of absolute necessity to every  
“merchant, business man, manufacturer or  
“owner of property, real or personal, within  
“our state; which daily and hourly stands  
“between some of our citizens and absolute  
“ruin; which preserves the merchant’s credit  
“and without which our modern business  
“methods would stagnate; which now is  
“the very keystone of their prosperity; why  
“should this business be singled out for  
“this unjust discriminative taxation?’ No other  
“business could or would submit to an income  
“tax for any amount, much less one amounting  
“to over one-third of the same. If the injustice  
“of the discrimination does not appeal to your  
“legislators, they should bear in mind that this  
“imposition must eventually fall upon the citizens of the state in the way of an increase  
“in rates.”

## SOME MISTAKEN IDEAS

1. The idea that the difference between the premiums received and the losses paid is all clear profit. The average loss ratio for the past ten years has been 56.7 per cent, and the expense ratio 37.3 per cent, so that after paying losses and expenses the companies have 6 per cent remaining, out of which to pay losses on outstanding policies ranging in term from one day to five years; dividends upon capital invested, and contribution to the surplus which they should accumulate against the "Rainy Day" which MUST BE RECKONED UPON. In the ten years ending December 31, 1904, the actual underwriting profits of 144 leading fire insurance companies amounted to 56-100 of one per cent, or in actual figures to \$8,682,598, divided among 144 companies as the net result of ten years' business, or an average of \$6,030 per annum for each company.

2. The idea that dividends declared by the leading companies are excessive. If a company is reported to have declared a dividend of 20 or 30 per cent, it must not be assumed that such dividend is excessive, for the reason that the stockholders have invested, not only the capital, but every dollar of assets as well. One of the leading companies has a capital of \$1,000,000, while its total assets amount to the sum of \$16,000,000, so that the stockholders have invested sixteen times the amount of the capital, and are entitled to the earnings on the entire assets, just as much as they are upon the earnings of the capital first invested. A dividend of 30 per cent upon the capital stock, therefore, amounts to but  $1\frac{2}{3}$  per cent upon the assets. Stock of this company has just sold in open market for \$1,371 per share, so that a dividend of \$30 per share would mean a dividend of a little over 2 per cent upon the amount paid per share.

## REMEMBER

That Insurance is Mutual in Principle and being so YOUR interests and those of the companies with which you insure are mutual.

That an insurance contract is one demanding absolute good faith on both sides.

That if YOU are unfortunate enough to have a loss by fire, the BEST insurance is NONE TOO GOOD.

That if fire insurance companies do not secure fair rates, they cannot survive great conflagrations. Thirty companies failed or retired in 1904, the year of the Baltimore conflagration.

That rates are highest in those states where the laws are the most oppressive and burdensome and the lowest in those states where the laws are the mildest and most reasonable.

That the leading fire insurance companies are officered and managed by honest men, who are honestly striving to give YOU the lowest possible rates, consistent with ability to pay every legitimate claim.

That YOU should read your policy before a fire, so that you may have no cause to complain after a fire that it does not cover as you intended it should.

Erie, Pa., February 1, 1906







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